



MONGOLIA'S TRADE DIVERSIFICATION

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Abstract

This paper investigates Mongolia's foreign trade in terms of its overall trends, structure, trading partners and main export and import commodities covering last 5 years period. It is concluded that for further diversification of exports, Mongolia should improve its FDI absorptive capacity, especially capacity in advanced technology and R&D along with improvements of its capacity in educated and skilled labor force, capacity of local firms, physical infrastructure and etc.

Keywords: Foreign trade, exports, imports, GDP, FDI

Introduction

Prior to 1990 Mongolia's trade characterized by a state monopoly and planned pricing system, and a limited market within Council for Mutual Economic Assistance and other socialist countries. However, at early 1990s the government has eliminated the state monopoly and state order system, abolished all quantitative restrictions on exports and imports. Law of Mongolia on Economic Entities, which enforced in May 1991 allowed to all entities engage freely in independent foreign trade activities.

Mongolian economy has been steadily increasing in the last five years reaching 7.8% of growth in average, although in 2009 it was marked with negative growth rate of 1.6 % due to the global economic crisis.

Mongolia's foreign trade which is comparable with its GDP value plays a major role in the country's economy. Recently Mongolian economic indicators are showing signs of recovery.

Trade balance deficit is improving significantly.

World Bank and other financial sovereign rating institutions estimates Mongolia's economic development positively.

Main features of the Mongolian foreign trade

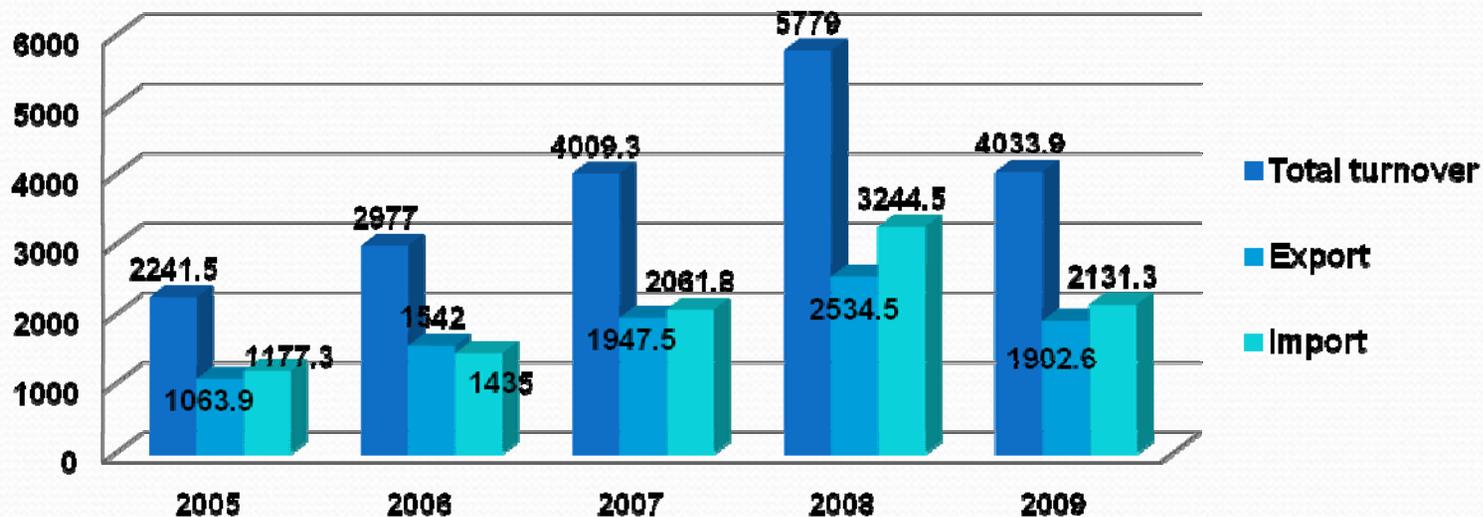
In Mongolian economy foreign trade plays a vital role, since its value is comparable with the country's around 5 bln. USD GDP.

Mongolia's foreign trade volume is increasing and has diversified in terms of destinations of its exports and the sources of imports.

In 2009 Mongolia has traded with 118 countries and approached total trade turnover to 4033.9 million USD, consisting of 1902.6 million USD of export and 2131.3 million USD of import.

However in 2009 due to the global financial crisis, trade turnover decreased by 1745.1 million USD or 30.2 percent, meanwhile export value decreased by 631.9 million USD or 24.9 percent compared of in 2008.

Foreign trade turnover mln.USD



	2005	2006	2007	2008	2009
Trade turnover	2241.5	2977.0	4009.3	5779.0	4033.9
Export	1063.9	1542.0	1947.5	2534.5	1902.6
Import	1177.3	1435.0	2061.8	3244.5	2131.3
Trade balance	(113.4)	107.0	(114.3)	(710)	(228.7)

Incentives for Mongolian export

Bilateral trade and economic cooperation agreements with more than 30 countries

Accession to the WTO (on 29 January 1997)

Certain goods and products originated from Mongolia are eligible to enter USA, Canada, the EU and Japan by GSP schemes

Extended its eligibility in the GSP + scheme which allows to export 7200 product items to the European Union markets on zero tariff rate.

However, utilization rate of these incentives is currently very low – 0.1 percent of total exports (source: Mongolian National Chamber of Commerce).

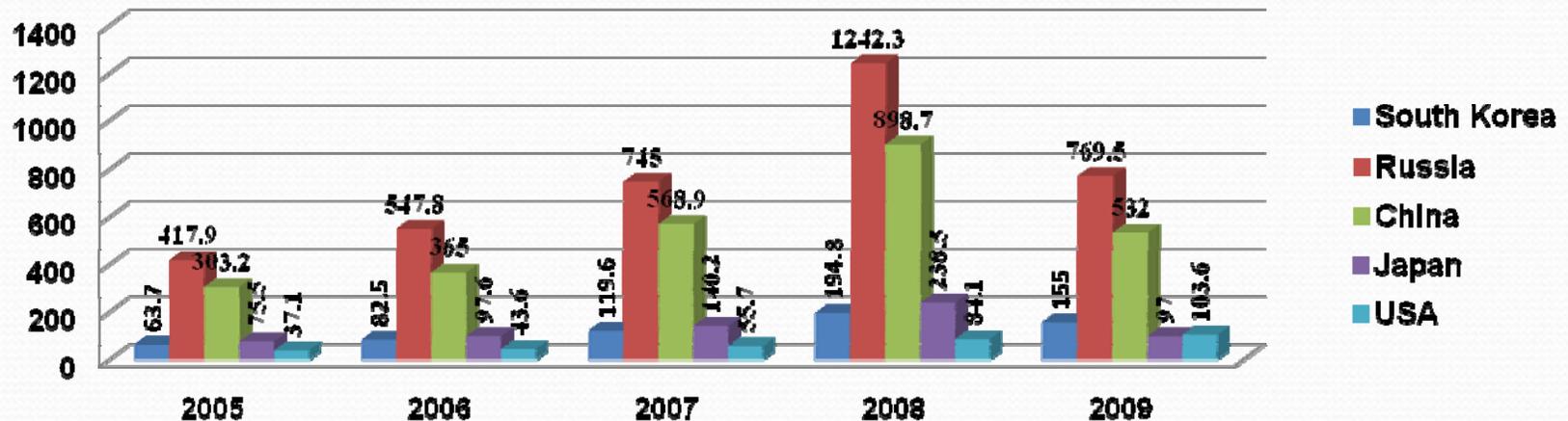
Major Trading Partners

Prior to 1990: former **Soviet Union** (around 80 percent of total turnover) and members of **CMEA** and socialist countries

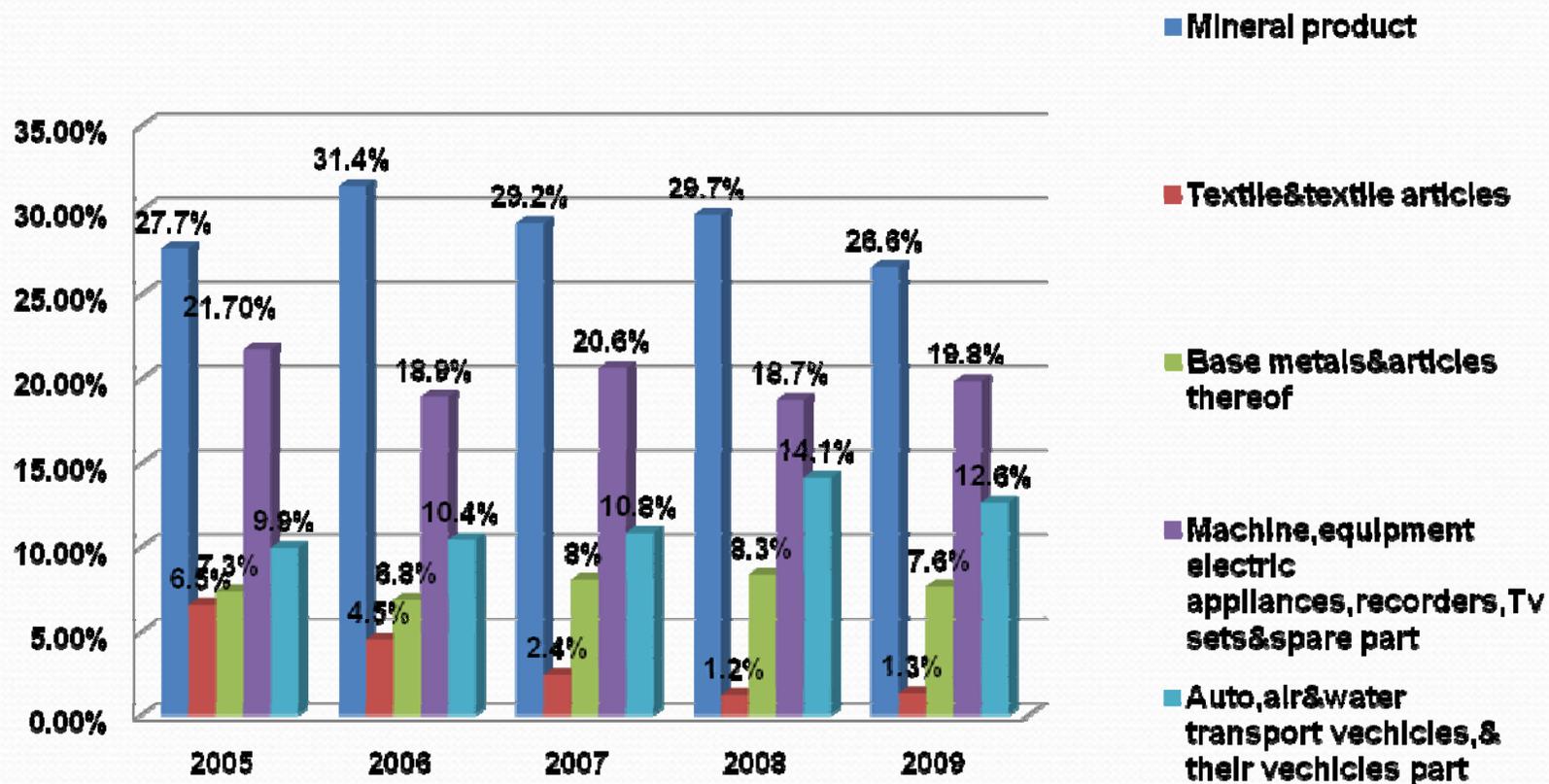
In early 1990's: trade reforms and liberalization policies in the course of its economic transition from a centrally planned economy into a market-oriented one, emerged new foreign trading partners:

China, the USA, the ROK, Japan and others. China and Russia are the largest trade partners.

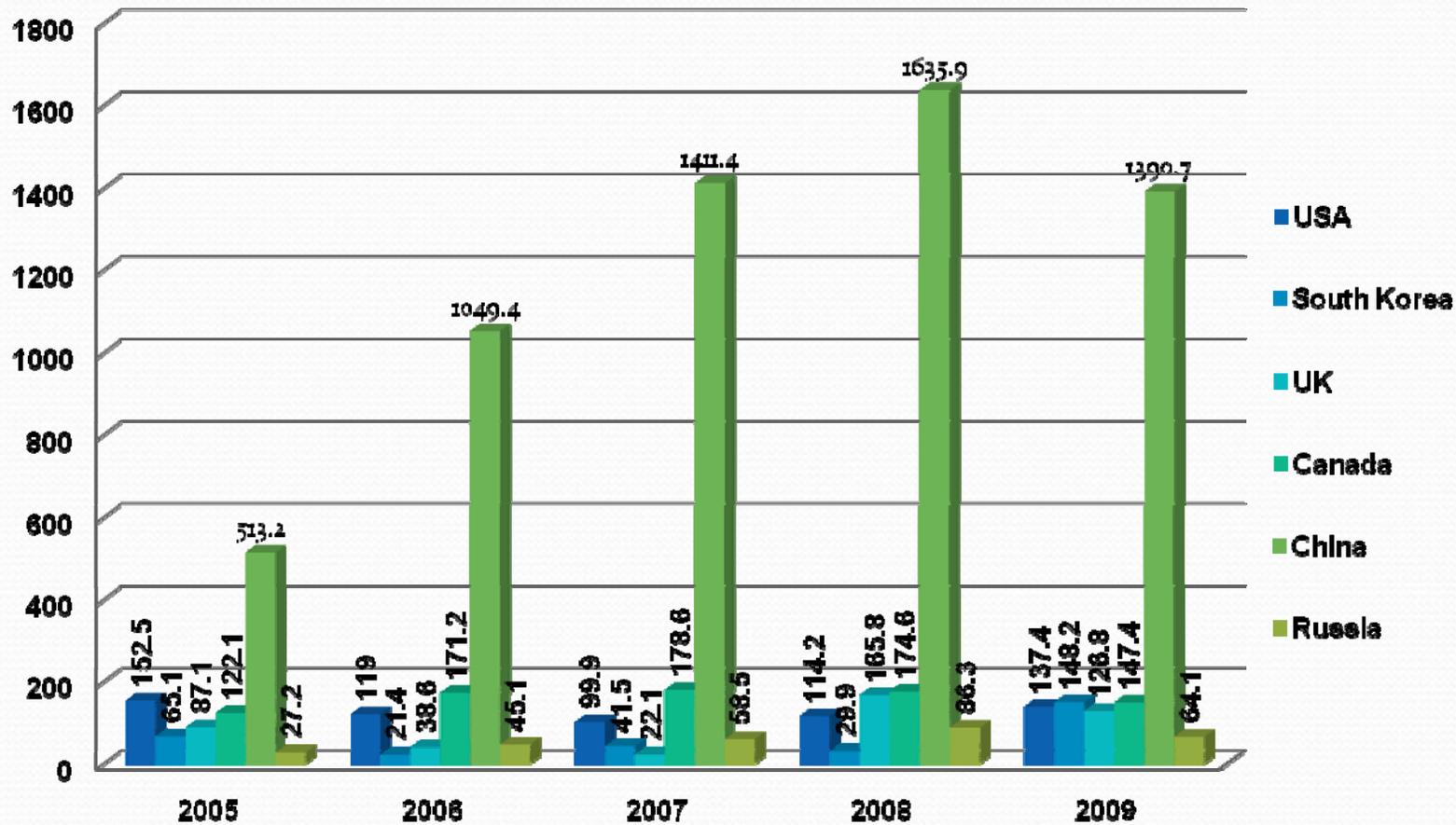
**IMPORT, by countries,
at current prices
mnl.USD**



Composition of Import, by group of commodities



**Exports, by countries,
at current prices
mln.USD**



The Structure of Exports

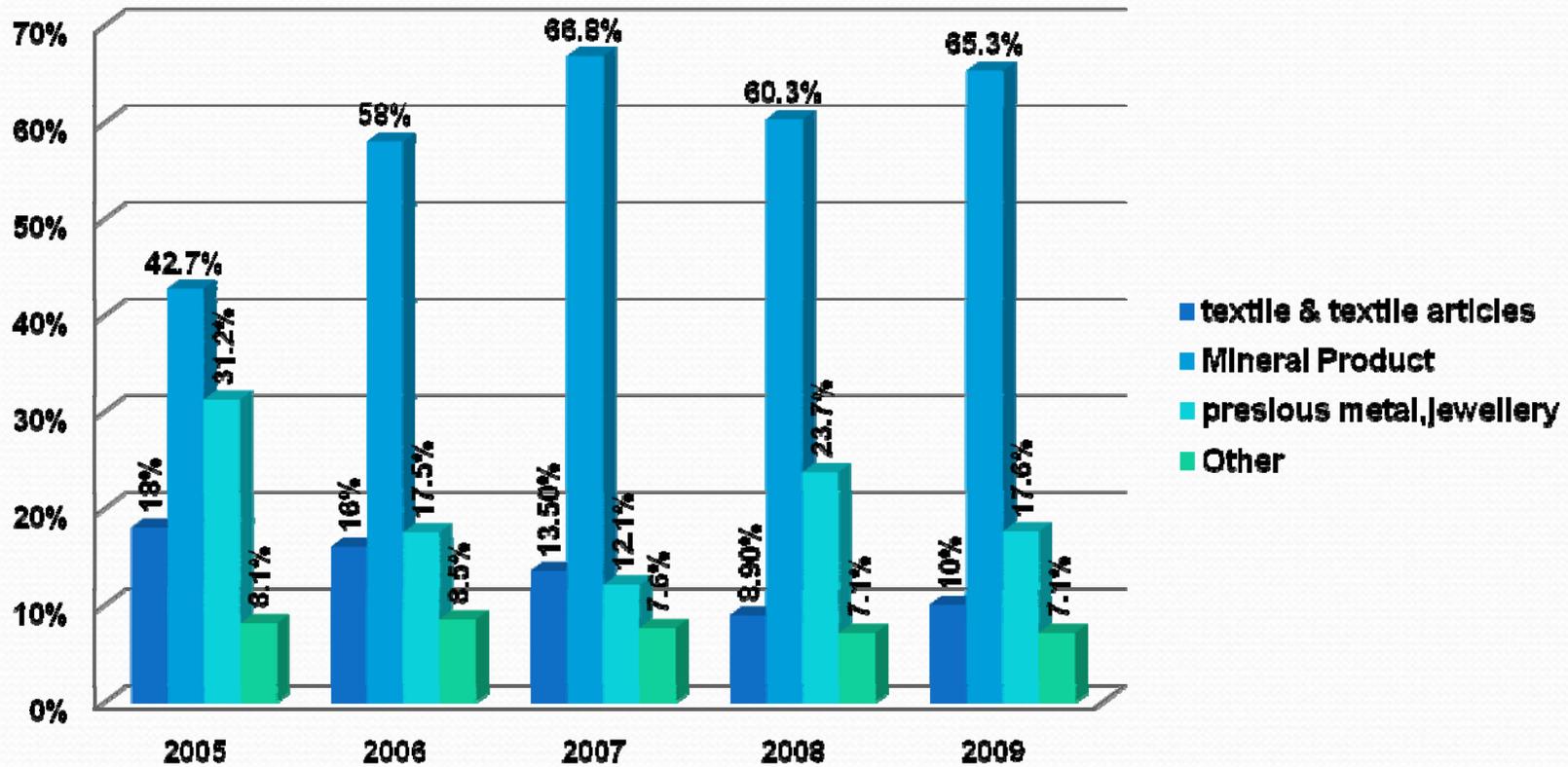
Mineral products (mainly copper, molybdenum and fluorspar concentrates), textiles and textile products, and precious metal were the dominant product groups and combined share of these products accounted for **92.9 %** of total exports.

Animal origin, raw and processed hide and fur and articles made from these – 2.4% of total exports in 2009.

Export of coal in 2009 increased to 305.1 mln.USD from 116.2 mln.USD in 2007. In 2010 coal export is increasing.

Overall composition of exports did not change much.

Composition of Export, by group of commodities



Low share of high value-added products in exports

- semi or non processed items comprises 97 percent of export products
- hi-tech value-added products comprises only 0.3 percent (2007) which is tends to get smaller on increasing ground of mining products in exports

For example: in 2008 “cathode copper, its components” product’s share in total exports very low:

2603.6 tones or 18526.2 thousand USD which is 0.073 percent of total exports

- Mongolian export will be increased by almost 2 fold in 2012 and by 3 fold in 2013 compared with 2009’s exports
(source: National Development and Innovation Committee of Mongolia).

Agriculture sector's share in exports

Share of animal origin products, raw and processed hide, skin, fur and products made of them could not increase much in the total exports, although the government is taking various measures, including capturing advantages in climate smart industries.

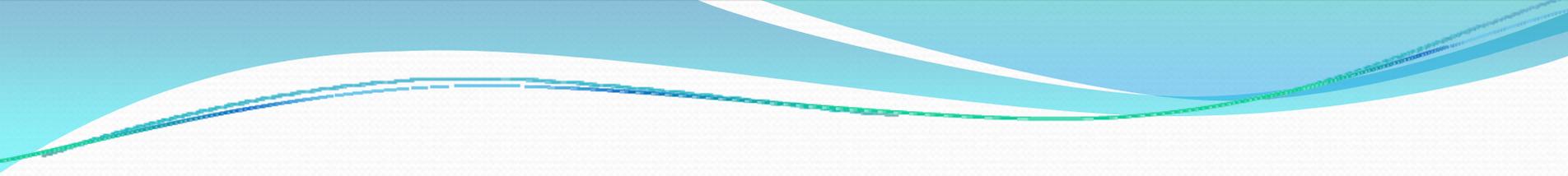
Food, Agriculture and Light Industry sector produces 40.9% of the GDP of Mongolia and employs 58% of the total workforce in the country and over 80 percent of agricultural products are produced by the husbandry industry.

Some outlook on the Mongolia's economy

- 7.8% average GDP growth in the last five years
- 5.7% GDP growth expected in 2010
- 7- 8 % GDP growth estimated in 2011
- 20% average annual GDP growth in 2013-2016
- Commencement of huge copper and coal mining projects
- GDP per capita will be around 7 thousand USD in 2020

Conclusion

- Mongolia's foreign trade is increasing in its volume and has diversified in terms of the destinations of its exports and the sources of its imports.
- However, the overall structure of Mongolia's foreign trade did not change much despite measures taken by the government. Exports were dominated by mineral products and those of livestock origin.
- For further diversification of exports, Mongolia should improve its FDI absorptive capacity, especially capacity in advanced technology and R&D along with improvements of its capacity in educated and skilled labor force, local firms, physical infrastructure and etc.
- It is needed to conduct research in order to avoid resource driven "Dutch disease"



Thank you